

Top Secret



Central Intelligence Bulletin

State Department review completed

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2 November 1973

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Approved For Release 2004/07/08 : CIA-RDP79T00975A025500090001-9

Approved For Release 2004/07/08 : CIA-RDP79T00975A025500090001-9

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ARAB STATES - ISRAEL: It was quiet on both fronts again yesterday, except for a clash on the east bank of the Suez Canal. The POW issue has not yet been resolved and the UN Security Council continues to grapple with the problem of staffing its peacekeeping force.

The incident in the Sinai involved the movement of about a company-sized Egyptian force closer to Israeli lines near the Gidi Pass. An Israeli spokesman said the Egyptians probably were trying to improve their positions, rather than break out. The Israelis fired warning shots over the heads of the Egyptians, and an hour-long skirmish ensued involving artillery and tanks. The Syrian front was calm throughout the day; [REDACTED]

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Israeli and Egyptian officers held a fourth meeting yesterday to discuss the question of POWs. No breakthrough was reported. A UN observer post reported that Israel was willing to return 35 wounded Egyptian POWs yesterday morning if Egypt would repatriate wounded Israeli POWs the same day. Syria, meanwhile, has announced that it is prepared to submit a list of Israeli POWs in Syria to the International Red Cross and allow Red Cross officials to visit them if Israel will:

--state officially that it will comply fully with the provisions of the Geneva conventions;

--return the bodies of Syrians killed in the war; and

--allow Syrian villagers displaced during the fighting to return to their homes.

Yesterday's informal UN Security Council meeting served only to sharpen the controversy over which members should participate in the UN Emergency Force. The Soviet Union demanded that the decision to permit Canadian logistic units be reversed unless Warsaw

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C Pact members also are included. Canadian Foreign Minister Sharp is expected to confer with Secretary General Waldheim, but for the moment Canadian participation seems in doubt. Nonaligned states insisted that the council disregard the Israeli requirement that contributors have diplomatic relations with Israel. Together with the Arabs, the nonaligned states are pressing the African states--which the Secretariat believes must be represented on the force--to offer contingents only if they have severed relations with Tel Aviv.

In Israel, Mrs. Meir's Labor Alignment was able to carry the day in a Knesset debate earlier this week over the POW issue, largely because of General Dayan's announcement of Egypt's readiness to cooperate with the International Red Cross. Despite this success, the Labor Party will face rough treatment in the weeks ahead as opposition leaders sharpen their attacks on the government's handling of pre-war intelligence and military preparedness, the decision to allow the Egyptian Third Army to be resupplied, and the alleged capitulation to US pressures.

Influential Egyptian editor Haykal commented in a column this week that any new outbreak of hostilities would probably be initiated by Israel, but he implied that Egypt itself is also ready. He asserted that Israel stopped fighting only because of US pressure, but "might now be beset by the temptation to slip free" and take action toward "redressing the situation on the battlefield." He added that he believes "one who does not advance is in fact retreating." With this oblique reference to possible Egyptian military action, he joins a growing list of Egyptians who are advocating--somewhat more directly than he--renewed war.

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FRANCE-EC: President Pompidou's proposal to his EC partners for an EC summit meeting has met with a mixed response.

The proposal, made after the French cabinet meeting on 31 October, suggested that the meeting should be held before the end of the year and should initiate a series of regular summit meetings. Pompidou referred to the handling of the Middle East crisis and proposed that the first meeting should decide on a procedure for convening representatives of the Nine to define a common attitude in future crises. This procedure is, in fact, already possible as part of the EC's regular political consultations.

France's criticisms of US actions in the Middle East crisis, especially its failure to consult more fully with the West Europeans while negotiating the cease-fire resolution with the Soviets, struck a responsive chord with other EC members. Pompidou is clearly dissatisfied with Europe's "inadequate" role during the crisis and hopes to exploit the present situation to emphasize the distinction between European and US interests in a Middle East settlement. The French leader also wants to establish that Western Europe's detente with the East is independent of that between the US and USSR.

There is suspicion in some European quarters that the French President may try to magnify France's role. Although Paris has taken the lead in making clear the Europeans' unhappiness about not being kept informed about US actions in the Middle East crisis, they are all very much aware of their continuing dependence on the US. They are determined, therefore, to make sure that steps toward European unity do not take on an aura of confrontation with the US.

Pompidou initially suggested regular summits during his press conference on 27 September. At

that time, the Germans, Italians, and British responded positively--possibly because they were looking for additional ways to reinvigorate the community. Bonn has reiterated its support in response to Pompidou's latest proposal. Other EC members, such as the Dutch, may be reluctant to participate unless France now indicates a willingness to cooperate in a community oil-sharing program. According to the US Embassy at The Hague, the Dutch also fear that regular summits may have a debilitating effect on existing EC decision-making machinery.

Pompidou also called for early ministerial-level meetings to establish a "concrete" anti-inflation plan which he said has been made all the more necessary by increasing energy prices. He was careful to note, however, that the EC Commission would enjoy its "usual participation" in such economic policy deliberations. In the past, Paris has taken the lead in proposing coordination of anti-inflation measures, but has resisted the binding community mechanisms necessary to implement them.

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EUROPE-US: The French are proposing a new broader declaration of Atlantic principles in the NATO forum. They believe, however, that consideration of the declaration should be postponed for two weeks, until after the scheduled US-EC consultations take place. The delay would also "let the dust settle and public polemics recede from memory" in the wake of US-European disagreement about cooperation on the Middle East.

French Ambassador de Rose told the NATO Permanent Representatives on 30 October that he believes the new draft, which Paris would add to its earlier defense-oriented paper, takes into account important gaps that had concerned several allies. The non-EC NATO allies have been insisting that the declaration must include broad political and economic considerations which Paris originally wanted reserved for the US-EC declaration. In addition, the Netherlands, in particular, has sought to stress aid to the developing nations.

Canada, the leader of the non-EC NATO allies, expressed gratification with the French move and hope that it would meet Ottawa's requirements. Without exception, the allies readily agreed to Paris' suggestion to defer discussion until mid-November.

The EC permanent representatives, meanwhile, are continuing to move ahead in drafting a new version of the US-EC declaration of Atlantic principles. Agreement on a new draft is almost complete within the EC. Dissatisfaction over the extent of US-EC consultations is likely to be a troublesome issue at the next round of US-EC talks, now expected on 14 November.

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THAILAND: The new government's foreign policy statements do not portend any early sharp departures in Thailand's relationship with the US.

Foreign Minister Charunphan has stated publicly that Thailand would continue its close relationship with the US. The government has moved, however, to head off criticism that it is insensitive to the concerns of those who believe that the relationship with the US needs to be adjusted. Charunphan, for example, has reiterated Thailand's "total sovereignty" over US bases in Thailand and has stated that negotiations concerning the reduction of US forces would continue until a total withdrawal is achieved. He offered no timetable and stressed that the withdrawal would have to proceed gradually and in accordance with the security situation in Indochina.

There is, however, some discontent with US-Thai relations that could cause problems for the Sanya government. These include the public's grumbling over the duty-free privileges of American officials, and student objection to the presence of former prime minister Thanom in the US.

The only other major foreign policy topic addressed by Charunphan was relations with China. In referring to Thailand's desire to have good relations with governments which have different ideological persuasions, Charunphan was trying to leave open the possibility of relations with Peking. He also made it clear, however, that there would be no change in Bangkok's relations with Taipei, stating that he would recommend that a new Thai ambassador be sent to Nationalist China. Such a move would make early diplomatic recognition of Peking impossible.

The government has clearly indicated a desire to keep foreign policy issues in the background over the next several months. Prime Minister Sanya, who is still educating himself on foreign affairs, seems at this point willing to follow the lead of his Foreign Minister. He presumably wants to devote his energies to the more immediate domestic problems.

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JAPAN: The Bank of Japan allowed the yen to depreciate by more than 1 percent before intervening in the market yesterday as the dollar continued to gain strength. Pressure on the yen has been strong for some months because of the declining trade surplus and record long-term capital outflows. Until recent weeks, however, the central bank had been successful in keeping the exchange rate at about 265 yen to the dollar by intervening almost daily. The gradual erosion of the yen in October, despite increased intervention, induced the central bank to set the unofficial intervention point at 270 yen to the dollar.

Despite the higher price for the dollar, the Bank of Japan had to sell \$150 million on 1 November to keep the yen from depreciating even further. Underlying the strong downward pressure on the yen is the belief that the decline in Japan's trade surplus will not soon be reversed and that large balance-of-payments deficits will continue. Given these factors, some estimates place the equilibrium exchange rate at about 280 yen to the dollar. If the dollar's strength continues, Tokyo may allow the yen to float toward that rate to avoid a further sharp decline in foreign exchange reserves.

News of the Japanese currency adjustment strengthened trader confidence in the dollar and led to a rise in its value on European money markets yesterday. The European currencies also appreciated relative to the yen, but the Europeans are concerned that their trade competitiveness with Japan, already having been threatened by past European currency appreciations, will be under even more pressure. []

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BOLIVIA: The Banzer government on 31 October arrested several important politicians and claimed that a conspiracy has been smashed. Julio Prado, recently dismissed from the cabinet and reported earlier to be organizing an opposition group, was among those detained. The arrests may calm the political situation for a while, but could also spur Banzer's opponents on to more intense plotting. Prado could be acting as an organizer for senior politicians, and if so, his arrest would damage but not terminate the plot. The next few days will be crucial. At least one military officer has been arrested. Only the military, [REDACTED]

[REDACTED] has the muscle to dislodge Banzer. [REDACTED]

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South Korea - Japan: Seoul and Tokyo have worked out an agreement to settle the controversy over the kidnaping of opposition political leader Kim Tae-chung by the South Korean CIA in Tokyo three months ago. Seoul's Prime Minister will present an apology to the Japanese on 2 November and provide assurances that Kim, who was released from house arrest in Seoul on 26 October, will not be restricted or punished. The South Koreans also have agreed to dismiss a CIA officer identified by Tokyo as involved in the abduction and to investigate his activities in response to Japanese demands that he be punished. [REDACTED]

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**These items were prepared by CIA without consultation with the Departments of State and Defense.*

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